



America's Health Benefits Exchanges



EXCHANGE OPERATIONS MODEL: CONSIDERATIONS FOR ILLINOIS

ILLINOIS DEPARTMENT OF INSURANCE
FEBRUARY 17, 2011

Previous DOI Webinars

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- **Exchange Basics (12/14/10)**
 - What is an American Health Benefits Exchange?
 - What are the elements of a successful Exchange?
 - What are the key decision points for Illinois, and what actions has the State taken to date?
- **Exchange Governance and Fiscal Sustainability (01/24/11)**
 - What are the pros and cons of the various governance models for a State Exchange?
 - What are possible funding sources for an Exchange?
- **Health Insurance Premium Increases in Illinois (02/01/11)**
 - What is the rate review process established by the ACA?
 - What authority do insurance regulators in Illinois and other states have to prevent unreasonable premium increases?
 - What factors affect the premiums paid by Illinois families and employers?

Overview of Presentation

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- Certification of Exchange plans: ACA requirements and federal guidance
- “Market Developer” and “Market Organizer” models
- Examples from other states
- Illinois considerations

ACA Requirements and Federal Guidance

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- Only “qualified health plans” can be sold through an Exchange.
- A qualified health plan must (Sec. 1301(a)):
 - Provide the “essential health benefits” package;
 - Be offered by an insurer that:
 - ✦ is licensed and in good standing in the State;
 - ✦ agrees to offer at least one “silver” and one “gold” plan;
 - ✦ agrees to charge the same premium outside the Exchange for each plan offered through the Exchange; and
 - ✦ complies with requirements established by U.S. Department of Health and Human Services (HHS) and **any additional requirements established by the Exchange**; and
 - Have a current certification from the Exchange.

ACA Requirements and Federal Guidance

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- A plan cannot be certified as a “qualified health plan” unless:
 - The plan meets the minimum requirements to be developed by HHS (including requirements respecting marketing, network adequacy, and quality improvement practices); and
 - The **“Exchange determines that making available such health plan through such Exchange is in the interests of qualified individuals and qualified employers in the State.”** (Sec. 1311(e))

ACA Requirements and Federal Guidance

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- In other words, the ACA vests Exchanges with broad discretion to determine which (and how many) insurers participate in a given Exchange, and the number and range of plan variations that are made available to consumers.

- Continuum of operating models:

“Market organizer”

“Market developer”

e.g., Utah

e.g., Massachusetts

Market Organizer vs. Market Developer

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- *HHS Initial Guidance to States on Exchanges:*
 - Under the “market organizer” model, the Exchange “operates as a clearinghouse that is open to all qualified insurers and relies on market forces to generate product offerings.”
 - A “market developer” (or “active purchaser”) Exchange “operates as large employers often do in using market leverage and the tools of managed competition to negotiate product offerings with insurers.”
 - “In both cases...States should provide comparison shopping tools that promote choice based on price and quality and enable consumers to narrow plan options based on their preferences.”

Market Developer Model: Examples from Other States

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- California legislation (AB1602, Sec. 7(c)):
 - The Exchange must develop criteria—in addition to the minimum requirements to be established under the ACA—for selecting plans that “are in the **best interests of qualified individuals and qualified small employers.**”
 - The Exchange must selectively contract with insurers with the goal of providing “health care coverage choices that offer the **optimal combination of choice, value, quality, and service.**”

Market Developer Model: Examples from Other States

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- Massachusetts Health Connector
 - Commonwealth Choice “seal of approval” only given to plans that:
 - ✦ “Meet all requirements of [state law];
 - ✦ provide **good value** to consumers;
 - ✦ offer **high quality**;
 - ✦ are offered through the Connector.”

(Mass. Gen. Laws 176Q, Sec. 10)

Exchange Operations Model: Questions for Policymakers

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- The operating model that is most appropriate for a given state will depend on many factors, including:
 - The organizational structure, governance model, and principles guiding the Exchange's operation;
 - The size of the Exchange:
 - ✦ Exchanges with fewer current or prospective covered lives will be less attractive to insurers and will thus lack bargaining power; and
 - Competition in existing health insurance market
 - ✦ Exchanges in markets dominated by three or fewer insurers may have difficulty bargaining;
 - ✦ However, the Exchange will only be attractive to insurers if there is a sufficient number of covered lives.

Illinois Market Concentration

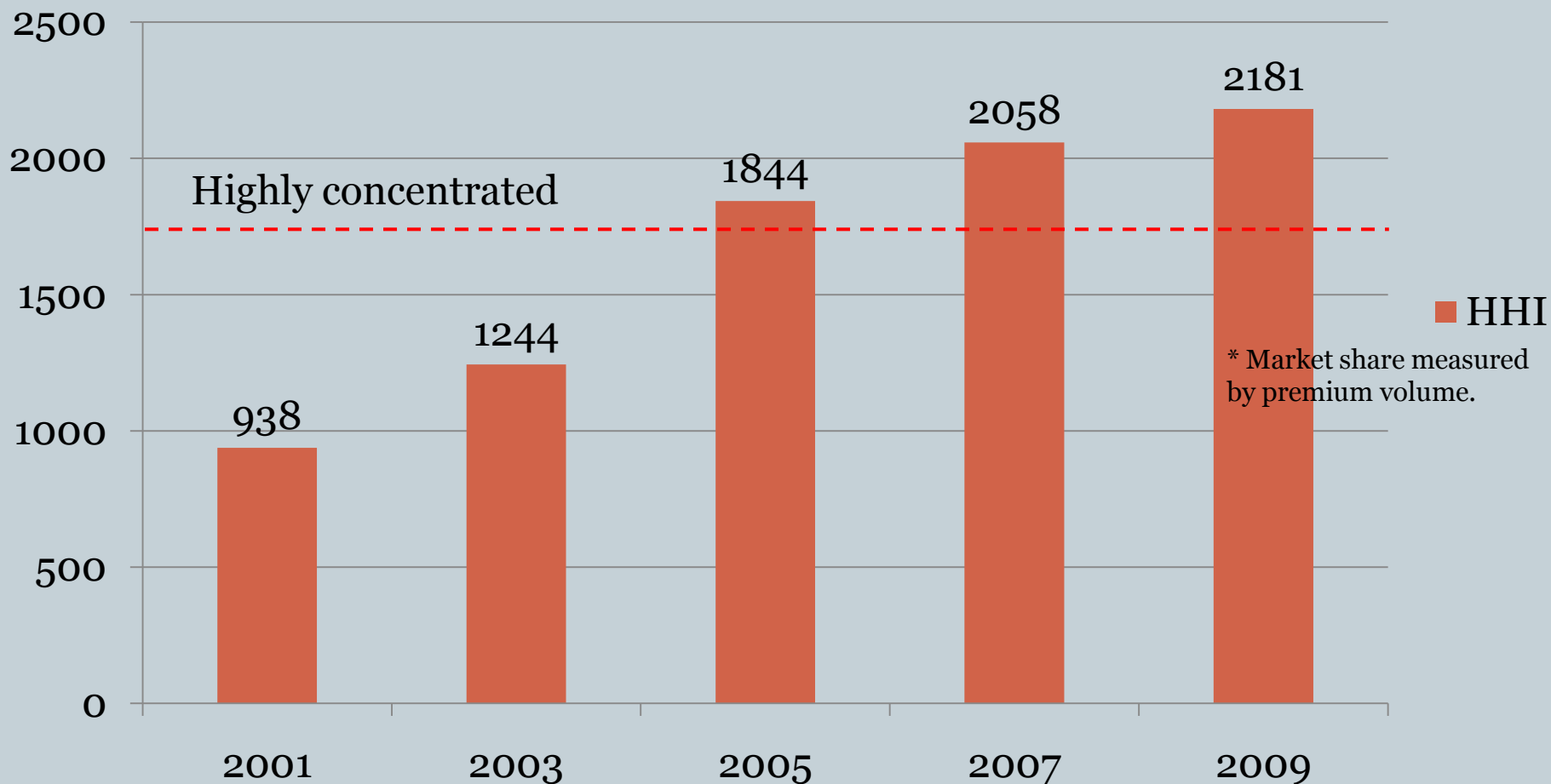
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- The Herfindahl-Hirschman Index (HHI) is a standard measure of market concentration, taking into account both the number of firms, and the market share that each commands. The lower the HHI index, the more competition in the market.
 - An HHI index of over 1000 indicates a “moderately concentrated” market and an HHI above 1800 indicates a “highly concentrated” market.
 - Generally, more competition means lower prices.
 - Illinois should have a competitive health insurance market that provides meaningful choice for families, individuals and employers.

Illinois Market Concentration

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Herfindahl-Hirschmann Index



Exchange Operating Model: Illinois Recommendation

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- **Primary goals:**
 - Increased competition among health insurers => increased choices for families and small employers;
 - Enhanced value of health insurance products;
 - Better quality of health care;

Exchange Operating Model: Illinois Recommendation

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- Primary Goals (cont.):
 - Health insurer competition benefits patients, families, employers, and providers.
 - ✦ More volume makes Exchange more attractive to health insurers;
 - ✦ Competition between insurers allows consumer choice based on cost and/or quality;
 - ✦ Competition allows providers to better leverage performance and quality of service when negotiating with insurers;
 - ✦ Business owners express concern that the cost of health insurance is a priority -- competition among health insurers makes Illinois a more attractive destination for employers; and
 - ✦ Competition among health insurers reduces demand for regulatory intervention, and allows market forces to hold insurers accountable.

Exchange Operating Model: Illinois Recommendation

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- Competition = Choice;
- Choice = Market Efficiency;
- Market Efficiency = better cost and quality of Illinois Exchange.

Exchange Operating Model: Illinois Recommendation

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- Legislation authorizing an Exchange in Illinois **should not require** the Exchange to certify all plans meeting minimum federal requirements, but may give the Exchange the **option of being a market developer**.
 - Exchange may make choice.
 - The Exchange would then exercise its authority based on early market share of the Exchange (number of covered lives or premium volume) and external market conditions.
 - Depending on experience after first several years, Exchange supervisors may transition from market developer to market organizer model, or vice versa.
- Feedback welcome!

QUESTIONS or COMMENTS?

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ADDITIONAL FEEDBACK

The Department of Insurance welcomes comments at any time. Feedback can be sent to doi.healthreform@illinois.gov .